

CITY OF PLEASANTVILLE

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

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City of Pleasantville

City of Pleasantville

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Moore	Mayor	Jan 2020
Aaron Hurt	Council Member	Jan 2020
Pam Bull	Council Member	Jan 2020
Jordan Van Ness	Council Member	Jan 2022
Clinton Wallace	Council Member	Jan 2022
Steve Marsh	Council Member	Jan 2020
Joe Mrstik	City Administrator	Indefinite
Rachel Reed	City Clerk	Indefinite
John Judisch	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Marsh	Mayor	Jan 2022
Kody Jurgens	Council Member	Jan 2024
Carol Allen	Council Member	Jan 2024
Kyle Patterson	Council Member	Jan 2024
Jordan Van Ness	Council Member	Jan 2022
Clinton Wallace	Council Member	Jan 2022
Joe Mrstik	City Administrator	Indefinite
Rachel Reed	City Clerk	Indefinite
John Judisch	Attorney	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Pleasantville for the period July 1, 2019 through June 30, 2020 including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Pleasantville's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pleasantville during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Faller, Kincheloe & Co, PLC".

Faller, Kincheloe & Co, PLC

December 28, 2020

Detailed Recommendations

CITY OF PLEASANTVILLE
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Pleasantville (City):

- (1) Cash – handling, reconciling and recording.
- (2) Investing – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparation and distribution.
- (6) Debt – recordkeeping, compliance and debt payment processing.
- (7) Utilities – billing, collecting, depositing and posting.
- (8) Financial reporting – preparing and reconciling.
- (9) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Financial Condition – At June 30, 2020, the City had deficit balances of \$78,273, \$35,511 and \$419,048 in the Special Revenue, Road Use Tax Fund, the Debt Service Fund and the Enterprise, Storm Water Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (C) Revenue Bonds – The sewer revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sewer sinking account. We noted that the cash balance of (\$5,522) in the sewer sinking account was deficient at June 30, 2020.

The revenue bond resolutions require the City to charge all uses of the utilities, including the City. We noted that the City is not being charged for water and sewer services, as required.

Recommendation – The City should implement procedures to ensure the sewer revenue bond sinking account cash balances meet the requirements of the debt resolutions. In addition, the City should ensure all City departments are charged for water and sewer services, as required by the debt resolutions.

CITY OF PLEASANTVILLE
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (D) Utility Rates – The recycling fee charged to customers was not established by ordinance. Chapter 384.84 of the Code of Iowa requires that utility rates be approved by ordinance of the City Council.

Recommendation – The City Council should approve utility rates by ordinance, as required by the Code of Iowa.

- (E) Annual Urban Renewal Report (AURR) – The AURR report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the beginning and ending cash balance and the beginning and ending debt balances as reported on the AURR do not agree to the City's records.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City's records.

- (F) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public safety and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (G) City Council Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to be published within fifteen days of the meeting. We noted that the City Council meetings were not timely published for three of the four meetings tested.
- Chapter 372.13(6) of the Code of Iowa requires the City Council minutes include all the claims allowed, and be published in a newspaper of general circulation in the City. We noted that for one of thirty-three tested items, the claim was not approved by the City Council or published in the newspaper.
- The Council went into closed session on August 15, 2019. The Council minutes did not document the vote to go into closed session. Chapter 21.5(2) of the Code of Iowa states that a vote of each member on a question of holding a closed session shall be announced publicly at the open session and entered into the Council minutes.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa in relation to the City Council publications and approval of claims. Also, the City should comply with Chapter 21 of the Code of Iowa in relation to closed sessions.

CITY OF PLEASANTVILLE
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (H) Depository Resolution – The City’s cash balance in the bank exceeded the depository resolution amount by approximately \$620,000 at June 30, 2020. Chapter 12C.2 requires the City to specify the maximum amount which may be kept on deposit in each depository.

Recommendation – The City should implement procedures to ensure the cash balance in the bank does not exceed the maximum amount which may be kept on deposit in each depository, as required by the Code of Iowa.

- (I) Receipt Misclassification – Our review noted that an intergovernmental receipt for \$36,546 was coded as proceeds from the loan on the City’s accounting system.

Recommendation – The City should implement procedures to ensure all receipts are coded to the proper receipt classification.

- (J) Payroll - Wage increases for City employees were approved based on a percentage increase and the actual approved wages were not documented in the City Council minutes.

Recommendation – Approval of wages should be documented in the City Council minutes.

- (K) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

We noted the following regarding the City’s TIF debt certification to the County Auditor:

- We noted City’s TIF debt certifications to the County Auditor include amounts relating to rebate and economic development agreement obligations which include an annual appropriation clause. Until appropriated, these payments do not represent debt and, accordingly, should not have been certified as debt.
- Debt amounts reported to the County Auditor for the General Obligation Bond payments represents an estimated amount. The debt amounts certified to the County Auditor should represent actual obligations amounts.

CITY OF PLEASANTVILLE
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City’s TIF certification.

- (L) Excess TIF Cash – At June 30, 2020, the City had a cash balance of \$136,414 in the Special Revenue, Urban Renewal Tax Increment Fund in excess of outstanding TIF obligations. As a result, it appears the City has excess cash in the Special Revenue, Urban Renewal Tax Increment Fund at June 30, 2020.

Recommendation – The City should consult legal counsel to determine how to handle the excess TIF balance.

- (M) TIF District – The City is still collecting TIF funds from an urban renewal area that is no longer active. Any monies collected from the area should be returned to the County Treasurer, as required by Chapter 24.21 of the Code of Iowa.

Recommendation – The City should return all TIF monies collected from an urban renewal area that is no longer active to the County Treasurer, as required by the Code of Iowa.

- (N) TIF Disbursements – The City paid \$53,000 of General Obligation debt obligations from the Special Revenue, Urban Renewal Tax Increment Fund. This cost does not represent a TIF obligation and, accordingly, is not an allowable use of TIF receipts. Furthermore, Chapter 384.4 of the Code of Iowa requires that all General Obligation Debt payments be paid from the Debt Service Fund.

Recommendation – The City should ensure all General Obligation debt principal and interest payments are paid from the General Fund, as required by the Code of Iowa.

- (O) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report include a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The 2020 Annual Financial Report did not accurately report fund transfers. The transfer amounts on the Annual Financial Report were overstated by \$53,000 compared to the City’s accounting records.

Recommendation – The City should ensure the Annual Financial Report transfer amounts agree to the City’s records.